DOCUMENT RESUME

ED 260 742 JC 850 450

AUTHOR Skeadas, Gus J.
TITLE Financial Reporting Practices in Illinois Public Community Colleges.
INSTITUTION Lincoln Land Community Coll., Springfield, Ill.
PUB DATE Aug 84
NOTE 19p.
PUB TYPE Reports - Research/Technical (143) -- Tests/Evaluation Instruments (160)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Community Colleges; *Compliance (Legal); *Educational Finance; Educational Legislation; Educational Policy; *Financial Policy; Two Year Colleges
IDENTIFIERS *Illinois

ABSTRACT

A study was conducted to determine how well Illinois' 38 community college districts satisfied the needs of board members, creditors, investors, and tax payers for financial information. A list of 38 financial reporting requirements was developed from the requirements of the Illinois Community College Board (ICCB) and guidelines from the Audits of State and Local Government Units, Audits of Colleges and Universities, College and University Business Administration, and National Council on Government Accounting. These requirements were compared with copies of Fiscal Year 1983 audit reports from the 38 districts. The study found: (1) total compliance among the colleges was found for the requirements related to assessment of the fairness of financial statements, unqualified opinion on the auditor's scope, inclusion of three mandatory financial statements, inclusion of the basis of accounting, the use of fund accounting, the inclusion of a schedule or note on long-term debt, and the avoidance of recording depreciation as an expense; (2) there was a significant lack of compliance with certain of the ICCB requirements (e.g., audit confirmation of all ICCB grants and audit deadlines); and (3) none of the districts made any attempt to measure their efficiency. (EJV)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

G. J. SKEADAS

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

BEST COPY AVAILABLE

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

ED260742

"FINANCIAL REPORTING PRACTICES IN ILLINOIS PUBLIC COMMUNITY COLLEGES"

Gus J. Skeadas
Lincoln Land Community College
Director of Business Services

August 1984

JC 850 450

BACKGROUND

The financial reporting practices employed by the thirty-eight Illinois Public Community College Districts vary from district to district, often standing in sharp contrast to one another. Some districts adhere to the standards prescribed by the AICPA industry audit guide *Audits of Colleges and Universities* and endorsed by NACUBO (*College and University Business Administration*); others follow the guidelines of the industry audit guide *Audits of State and Local Governmental Units* and the NCGA; still others combine selected requirements of both industry audit guides.

The result is a lack of uniformity among the reports of the various districts--and often between the reports of the same district from one fiscal year to the next (when auditing firms are rotated, as is the practice in many districts). The wide variety of reporting practices is confusing, not to mention annoying, to certain interest groups who must read and digest the reports as a necessary step in their decision-making processes:

1. Locally-elected board members--who must use the reports in evaluating management's performance.
2. Creditors and potential investors--who must evaluate the risk involved in possible investment.
3. Investors--who must make continuing assessments of the safety of the investment, once it is made.
4. Taxpayers--who, predictably enough, want to determine whether their tax dollars are spent wisely.

HISTORY

Illinois Public Community Colleges receive their power to operate from the Illinois Public Community College Act, which gives the authority to regulate the community college districts to the Illinois Community College Board (ICCB). In 1966 the ICCB assembled a committee of chief finance officers for the purpose of drafting a uniform accounting manual to assist the colleges in developing their internal accounting and external financial reporting formats. The committee prepared a tentative draft that was used until the fall of 1969, at which time the draft was expanded from a mere accounting manual into a reference manual encompassing all financial areas. Since 1970, the manual has been reviewed annually and refined when necessary.

The reference manual, however, only suggests a financial reporting format--and requires only that eleven specific items be included in the audit report. Thus the districts have considerable latitude in deciding what information they will present, and in what format they will present it. The inevitable result is that some reports employ the ASLGU format (because of the district's ability to levy property taxes) while others adhere strictly to the ACU format.

PROCEDURE

In an attempt to determine how well the thirty-eight community college districts satisfied the needs of the various user groups, a list of thirty financial reporting requirements was compiled--using both industry audit guides (ASLGU and ACU), CUBA and the Illinois Community College Board requirements (Appendix A). These reporting requirements leaned very heavily

toward the format required by ACU; special consideration, however, was given to the district's ability to levy property taxes and the need for the special handling of open encumbrances at year-end.

Copies of the FY1983 audit reports (prepared by independent CPA firms and filed with the ICCB) were then obtained and used to determine how well the thirty financial reporting requirements were satisfied. As expected, the findings varied from total compliance to virtually-total neglect of compliance.

THE RESULTS

The key findings from the study indicated a total lack of compliance in some areas. Of particular significance is the lack of compliance with ICCB requirements, which are required by law and must be included in each report. Findings are detailed in the tables below, along with the current disclosure requirements and the percentage of community college districts in compliying with the requirements. Total compliance was found for the following requirements:

1. An opinion on the fairness of the financial statements.
2. An unqualified opinion on the auditor's scope.
3. The inclusion of the three mandatory financial statements.
4. The inclusion of the basis of accounting.
5. The use of fund accounting.
6. The inclusion of a schedule or note on long-term debt.
7. The avoidance of recording depreciation as an expense.

Table 1

ACU Requirement

Pension Disclosure

Current Requirements:	*Percent of Community College Districts Not Complying*
*Disclosure of **any** excess actuarially computed value of vested benefits over the total assets of the pension fund and net balance sheet pension accruals*	*100%*
Disclosure of accounting policies used	*100%*
Disclosure of funding policies used	*100%*
Disclosure of the current period's provisions for pension costs	*97%*

As Table 1 indicates, virtually none of the community college districts included in the study disclosed any of the required information relating to pensions. Illinois public community college districts do not operate their own pension funds; all belong to the State University Retirement System, which is comprised of all segments of higher education in the state. The retirement system was established by the State of Illinois and operates with membership required for all employees. Members contribute 8% of gross salary, the state also makes an annual contribution. Due, however, to the economic climate in Illinois, the General Assembly usually appropriates only that amount necessary for the system to make its monthly benefit payments. Thus an unfunded pension liability exists for all institutions, which is reported in total only in the SURS annual report.

The obstacles noted above must be overcome if the community college districts are to report the results of their operations accurately. Investors, creditors, and bond holders need this type of information in order to assess the financial position of each community college district.

Table 2

ICCB Reporting Requirements

Current Requirements:	*Percent of Community College Districts Not Complying*
Three copies of the annual audit report must be filed with the ICCB on or before October 15, following the close of the fiscal year	*45%*
The audit must be completed within 60 days after the end of the fiscal year	*39%*
Uniform Financial Statements must be submitted with the audit report	*11%*
A verification of student enrollments must be included in the audit report	*21%*
A schedule of enrollment data must be included in the audit report	*11%*
The report must contain a comment on internal control	*21%*
An audit confirmation of all ICCB grants must be made	*63%*

Table 2 shows the number of community college districts not in compliance with ICCB reporting requirements. The ICCB is empowered to withhold state funding for districts not reporting properly; but in practice it merely

informs the districts of their reporting deficiencies and then makes arrangements for these deficiencies to be corrected. The various users of the audit reports, however, are usually not aware that these deficiencies were corrected--nor do they see the newly-submitted information.

Finally, the districts are all required to have their auditors confirm all grant payments received to the ICCB. Upon separate inquiry, the ICCB reported that all district auditors did verify the grants received; but not all audit reports reflected this fact, which can only be determined by direct inquiry to the ICCB.

Table 3

ACU Requirement

Disclosure of Accrued Vacation

Current Requirements:	*Percent of Community College Districts Not Complying*
Footnote disclosure of accrued vacation exceeding a normal year's accumulation	*74%*

Many of the districts disclosed neither the accrued vacation liability nor the board policy on the accumulation of vacation time. Some districts do not provide for the accumulation of paid vacation leave in excess of a normal year's accumulation. Significantly, no mention was made of such policies in many of the audit reports that excluded an attempt to measure these liabilities.

Table 4

NCGA Requirement

Disclosure of Overlapping Debt

Current Requirements:	*Percent of Community College Districts Not Complying*
The proportionate share of the debts of other local governmental units located wholly or in part within the limits of the reporting unit should be disclosed in the annual financial report	*100%*

None of the community college districts attempted to disclose overlapping debt in their annual financial reports, although several districts did attempt to calculate their legal debt margin and then show that this margin had not been exceeded. While disclosure of overlapping debt is not an obligation of the college district, it is an indicator of how heavily local property owners are taxed to finance the various services provided to them by other taxing bodies. This is important information to an investor who may be reviewing an annual report in an attempt to determine the total financial demands placed upon the taxpayers of the college district by all taxing bodies.

Table 5

ACU Requirement

Disclosure of Noncapitalized Lease Commitments

Current Requirement:	*Percent of Community Colleg- Districts Not Complying*
Footnote disclosure of all noncapitalized lease commitments	*26%*

Table 5 illustrates that one out of four districts did not disclose all of its noncapitalized lease commitments in the annual report. Readers of these reports cannot determine a district's ability to increase long-term debt, nor can they project a district's cash flow needs. Such information can be significant in assessing the needs of a district attempting a sale of working cash bonds or the issuance of tax anticipation notes.

Table 6

ACU Requirement

Disclosure of Source of Funding of General Fixed Assets

Current Requirement:	*Percent of Community College Districts Not Complying*
Disclosure of the original funding source of all general fixed assets	*29%*

Only seventy-one percent of the districts revealed the original source of funding of their general fixed assets. Although this information is not of primary concern to investors and the general public, it does provide a report on management control and an accountability listing, and should be properly disclosed.

Table 7

ACU Requirement

Disclosure of Source of Funding of General Fixed Assets

Current Requirements:	*Percent of Community College Districts Not Complying*
Footnotes should include a schedule of investments	*71%*

As shown in Table 7, many of the districts did not include a schedule of investments which reflected the total performance of their investment portfolios--their yields, their gains, and their losses. A schedule of investments provides information on the liquidity of each fund; it indicates the amount of monies invested by fund, location of the investments, individual yields, and time-to-maturity. This information can be critical to someone performing a cash flow analysis or simply trying to make certain that investment policies are being followed.

Table 8

ACU Requirement

Disclosure of Borrowing From Restricted Funds

Current Requirement:	*Percent of Community College Districts Not Complying*
Funds restricted to use by an external source usually cannot be used for any purpose other than that purpose expressly indicated in the contract and should not be loaned to another fund	*45%*

Table 8 shows that an alarming number of community college districts borrowed monies from restricted-purposes funds for uses other than those specified in the contracts. Even though the monies were usually repaid, the unauthorized loans represented a violation of the contractual agreement and often implied cash flow problems.

Table 9

ACU Requirement

Reservation of Fund Balance for Open Encumbrances

Current Requirement:	*Percent of Community College Districts Not Complying*
Fund balance must be encumbered to represent unfilled purchase orders at year end	*61%*

Table 9 demonstrates that many districts are not encumbering fund balance to reflect the amount of outstanding purchase orders and other commitments for materials or services not rendered as of the end of the fiscal year. Districts should not be reporting these purchase orders as expenditures and liabilities, since an actual obligation does not exist. Moreover, the reservation of fund balance tells the reader that the entire fund balance is not available to be expended in the next fiscal year, since some of it has already been committed.

Table 10

NCGA Requirement

Disclosure of Method of Recording Property Tax Revenue

Current Requirement:	*Percent of Community College Districts Not Complying*
Property tax revenue must be accounted for on the cash method of accounting unless it is expected to be collected within 60 days after the end of the fiscal year	*11%*

Table 10 points out that some of the districts chose to ignore NCGA Interpretation 3, which prohibits the reporting of property tax revenue on the full accrual method. NCGA Interpretation 3 is the only method recognized as GAAP, and the four districts that ignored it are all in violation of GAAP. The use of accrual accounting for reporting property tax revenue allows the districts to take that tax money into revenue before they should, thus inflating revenues and fund balances. By adhering to NCGA Interpretation 3, the districts would be reporting on GAAP and therefore providing a more accurate revenue amount and fund balance total.

Table 11

ACU Requirement

Comparison of Budget Versus Actual

Current Requirement:	*Percent of Community College Districts Not Complying*
Actual revenues and expenditures must be compared to corresponding budget amounts	*8%*

Table 11 reveals that a few districts did not present a comparison of budgeted versus actual revenues and expenditures for their education funds and their building & maintenance funds. Failure to do so prevents users from knowing if budgetary expenditure levels are exceeded and if revenues are budgeted accurately. Budgeted expenditure levels represent statutory spending ceilings which cannot be exceeded, while budgeted revenue amounts indicate total anticipated revenues upon which expenditure levels are determined. If budgeted revenues are projected too high, actual expenditures may exceed actual revenues-resulting in an unexpected deficit; and if budgeted

revenues are projected too low, budgeted expenditures may be unnecessarily curtailed.

Table 12

NCGA Requirement

Disclosure of General Information Data

Current Requirements:	*Percent of Community College Districts Not Complying*
Disclosure of ten-year data	*97%*
Inclusion of an introductory letter	*95%*
Inclusion of any information attempting to measure overall college efficiency	*100%*

Table 12 shows that very few districts attempted to list any ten-year trend data. Such data are (sic) useful to analysts in determining where certain important college indicators are pointing. Often the results of a single year do not provide an accurate picture of future events. In addition, an introductory letter--from the chief business officer or chief executive officer--highlighting certain events and calling attention to important matters can point a reader in the proper direction and help him understand the financial report.

Finally, none of the college districts made any attempt to measure their efficiency. A measure of efficiency should indicate how much better off a district was at the end of the fiscal year than at the beginning. This measure does not have to be financial, but it can serve the same purpose as net income does for measuring efficiency in the private sector.

CONCLUSION

The findings of this study indicate a substantial lack of compliance with current reporting standards. Until such time as the ICCB requires a specific reporting format, community college districts will have the freedom to report in a wide variety of ways--resulting in continued confusion on the part of the many users. If these users are to determine, with reasonable accuracy, how successful a district has been, their needs must be satisfied.

Appendix A

Master List of Questions

1. Were three copies of the audited financial statement submitted to the ICCB by October 15, following the end of the fiscal year?
2. Was the annual report issued within 60 days after the end of the fiscal year?
3. Was an opinion rendered on the fairness of the financial statements?
4. Was an unqualified opinion rendered on the scope of the audit?
5. Did the financial statements include:
   a. Balance Sheet;
   b. Statement of Changes in Fund Balance;
   c. Statement of Current Funds Revenues, Expenditures, and other Changes?
6. Were Uniform Financial Statements included?
7. Was there a statement on the verification of enrollment?
8. Was there a schedule of enrollment data?
9. Was there a statement on internal control?
10. Was there a statement on the basis of accounting used?
11. Was an audit confirmation made to the ICCB for all payments received?
12. Was any trend data covering the past ten years included?
13. Was an explanation of the college's operations and a cover letter either from the CBO or CEO included?
14. Was any data included to show the efficiency of the district?

Appendix A (Continued)

Master List of Questions

15. Was any excess of actuarilly computed vested benefits over pension fund assets disclosed?
16. Was the accounting policy used for the pension costs disclosed?
17. Was the funding policy used for pensions disclosed?
18. Were the current period's provisions for pension costs disclosed?
19. Were all accrued vacation liabilities that exceeded a normal year's accumulation disclosed?
20. Was the district's overlapping debt disclosed?
21. Were all noncapitalized lease commitments disclosed?
22. Did the General Fixed Assets Group of Accounts indicate the source of money used to acquire long-lived assets?
23. Was the audit report prepared in accordance with fund accounting principles?
24. Was a schedule of investments showing yields, gains, and losses included?
25. Was a note or schedule on long-term debt included?
26. Were all inter-fund borrowings from Nonrestricted Funds?
27. Were all open encumbrances at year end reflected as a reservation of fund balance and not reported as expenditures and liabilities?
28. Were all property taxes recorded in accordance with NCGA Interpretation 3?
29. Was depreciation recorded only as a reduction in asset value and not as an expense?

Appendix A (Continued)

Master List of Questions

30. Was a comparison of actual to budget for both operating revenues and expenditures reported?

BIBLIOGRAPHY

American Institute of Certified Public Accountants, APB Opinion 8, Accounting for the Cost of Pension Plans. New York: AICPA. 1966.

Cockrill, Robert M. et. al. Financial Disclosure Practices of the American Cities. Ann Arbor, Michigan: University of Michigan Press, 1976.

College and University Business Administration, revised edition. Washington, D.C.: American Council on Education, 1968.

Committee on College University Accounting and Auditing, American Institute of Certified Public Accountants. Audits of Colleges and Universities. New York: AICPA, 1973.

Committee on Governmental Accounting and Auditing, American Institute of Certified Public Accountants. Audits of State and Local Governmental Units. New York: AICPA, 1974.

Davidson, Sidney et. al. Financial Reporting by State and Local Governmental Units. Chicago, Illinois: University of Chicago Press, 1977.

National Council on Governmental Accouting, Interpretation 3, "Revenue Recognition--Property Taxes." Chicago, Illinois: Municipal Finance Officers Association, 1981.

Financial Accounting Standards Board, Accounting for Leases. Stamford, Connecticut: The FASB, 1976.

Skousen, K. Fred et. al. User Needs: An Empirical Study of College and University Financial Reporting.

Illinois Community College Board, Uniform Accounting Manual. Springfield, Illinois: 1980.

Raman, K.K. "The Tiebout Hypothesis: Implications for Municipal Financial Reporting," Journal of Accounting. Auditing & Finance. (Fall 1979).

ERIC CLEARINGHOUSE
FOR JUNIOR COLLEGES
OCT 4 1985

BEST COPY AVAILABLE